

Cambodia-Laos-Vietnam: Economic Reform and Regional Integration

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Abstract

This paper reviews the evolution and progress of economic reform in Cambodia, Laos, and Vietnam (CLV) from the early 1990s and the cooperation among the three countries in promoting economic development and poverty reduction. Liberal market economy and economic integration are the mainstream of the political economy of development of CLV countries. Relatively high economic growth rate with trade openness and investment attractiveness, CLV countries are rising new stars adding to the economic gravity of ASEAN and Asia Pacific region. However, the remaining challenges are good governance and labor productivity.

Introduction

Cambodia, Laos, and Vietnam (CLV), gained independence from colonialism in the early 1950s, had gone through prolonged war, regime changes, instability and political upheavals, which made them far behind the other Southeast Asian countries in terms of economic development, industrialization and modernization. Only in the last decade did these countries reemerged to be part of the center of economic gravity of the Asia Pacific region. With continued economic reform and trade openness, CLV has achieved remarkable growth in the last decade with about 8 percent of annual Gross Domestic Product. Due to such high development, CLV is regarded as the new frontier for growth in the region within the context of ASEAN regional generic integration. Such growth contributes to narrowing development gap or disparity in the region. However, during the process of economic transition and integration, these countries have faced with challenges and problems associated with privatization, marketization, sustainable development, and poverty reduction. This paper aims to examine the current economic reform and development in CLV and the cooperation and integration among the three countries in contributing to the dynamic ASEAN regional integration process.

1. Economic Reform and Development in CLV

Economic reforms in the CLV started in late 1980s in tandem with the falling of the Soviet Union and the end of the Cold War. However, these three countries followed slightly different paths of reform although they were inspired by the socialist market economic system. The industrialization process in these countries took place at different levels with different outcomes. For Cambodia and Laos, the rate of industrialization is slower than Vietnam's, which is mainly led by foreign investment and private sector (Amakawa, 2007). It was generally observed that:

All three states seek to build a new future while also accommodating the past. As their economies modernize along different lines, they often demonstrate related characteristics...at the same time they make different modifications and

adjustments to exploit the unique strengths of their individual cultures and to mask their weaknesses in separate ways. In the process, all three states display a certain respect for hierarchy and an appreciation for order, moral responsibility and achievement (John 2006:200).

Cambodia, unlike Laos and Vietnam, adopted a free market economy with higher level of openness and liberalization since the early 1990s. Since then, international development assistance and foreign direct investment played significant role in its socio-economic development. Unlike Laos and Vietnam, Cambodian political system is constructed based on liberal democracy and pluralism. Cambodia became the member of the World Trade Organization in 2004 before Vietnam (joined in 2006) and Laos (currently still considering its membership with WTO).

The development experiences from East Asia were inspired by and reflected in the development agendas of many Asian countries including the CLV. It demonstrates four patterns of economic development model. First, in relation to development plans, It requires stable macro-economic management; market prices, including interest rates, centered on economic and industrial policies; and the establishment of physical and institutional infrastructures and human resources. Second, in relation to development models, it is necessary to select a combination of models appropriate for the economic and social systems and history of each country with differing levels and phases of development. Third, in relation to development assistance strategies, it is essential to ensure the effectiveness of policy dialogue and the conditionalities by continuously assessing economic rationality and the political and social costs in the hope of continuously reforming policies. Fourth, in relation to the aid approach to development management, it is important that development management be considered not only from the viewpoint of administrative improvements through institutional and organizational development within the public sector but also from practical use of the market mechanism and managerial improvements in the private sector (Kazumi 1997).

Export oriented development model and economic openness have been the driving forces of economic reform of CLV. Vietnam is one of the most advanced economies in the region with relatively high industrialization. Cambodia and Laos are in the process of moving from exporting primary products to labor intensive manufacturing, and in later stages to knowledge-based economy. Tourism industry is one of the key employment and income generating industries in CLV (Tourism directly contributes about 12 percent of GDP for Cambodia and Lao, and about 6 percent for Vietnam).

Over the last two decades (1990s and 2000s), CLV have experienced relatively good economic performance with an annual GDP growth of about 7 to 8 percent. Economic growth rates of CLV remain promising. In 2012, it is expected that Laos will have the highest growth with 8.4 percent, Cambodia ranked second with 6.2 percent, and Vietnam with 5.8 percent (see Table 1). In terms of per capita income, CLV's remain low, as compared with other countries in the region. Per capita income in Cambodia is the lowest and Vietnam is the highest amongst the CLV countries (see Table 2).

Table 1: Economic Growth Projection for CLV in 2012.

	Cambodia	Laos	Vietnam
GDP Growth Rate	6.2%	8.4%	5.8%

Source: International Monetary Fund

Table 2: GNI Per capita in CLV (US\$)

	Cambodia	Lao PDR	Vietnam
Per Capita Income	760	1010	1100

Source: World Bank Doing Business Report 2012

CLV share some similarities in terms of economic structure. Agriculture remains the key industry contributing to 27 percent of the GDP and employing about 60 percent of the total labor forces. Vietnam, a more advanced economy than Cambodia and Laos, is struggling towards realizing its ambition to become an industrialized and modernized economy by 2020 (See Table 3).

Table 3: Economic Structure of CLV in 2011 (% of GDP)

Sectors	Cambodia	Lao PDR	Vietnam
Agriculture	30%	27.8%	22%
Industry	30%	34.8%	40.3%
Services	40%	37.4%	37.7%

Source: CIA Factbook

The flow of foreign direct investment (FDI) to CLV has been stable with some certain increasing trend over the years due to political stability, stable macroeconomic performance, relatively low labor cost, financial market development, investment promotion policy, institutional environment, global and regional economic integration and openness, and some improvements in local infrastructure. Vietnam receives more than five times the amount of FDI that flows into Cambodia and Laos. It reflects the attractiveness and economic centrality of Vietnam in CLV (See Table 4). CLV needs to have a regionally integrated approach in attracting FDI especially in the CLV Growth Triangle region.

Table 4: FDI inflows to CLV (US\$ million)

Countries	2006	2007	2008	2009	2010	2011
Cambodia	483	867	815	539	783	892
Laos	187	324	228	319	333	450
Vietnam	2400	6700	9579	7600	8000	7430

*Source: UNCTAD Foreign
Direct Investment Database*

The growth of production networks in East Asia since the 1980s has depended on foreign direct investment by multinational companies in countries with low wages and large pools of unskilled labor to produce manufacturing products for export (Leung *et al.*, 2010:51). Cheap labor remains competitive in CLV economies. Intensive labor industries have been the driving force of economic reforms and industrialization. There are similar wage rates between Cambodia and Vietnam (See Table 5). The key challenge for CLV economies is how to increase the wage for the workers in order to meet the high inflation rate while maintaining their competitiveness. In other words, finding ways to increase labor productivity is essential.

Table 5: Average wages in CLV (US\$/month)

	Phnom Penh	Ho Chi Minh	Hanoi
Workers (General)	101	114	96
Engineers (Mid-level)	363	265	265
Managers (Department Chief Level)	416	641	621
General staffs Non-manufacturing	225	379	372
Managers Non-manufacturing	1035	940	1013
Legal minimum wage	55	79.49	79.49

Source: JETRO investments related cost investment survey 2012

Although there is relatively high economic growth in CLV and the FDI flow is rather promising due to different sources of comparative and competitive advantages, CLV in the context of global competitiveness ranking remains slow. Cambodia is ranked 138th, Laos at 165th place, and Vietnam, the most competitive in the sub-region, is only ranked 98th (See Table 6).

Table 6: Ranking in Doing Business in CLV in 2012

Topic Rankings	Cambodia-138	Lao PDR-165	Vietnam-98
Starting a Business	171	89	103
Dealing with Construction Permits	149	80	67
Getting Electricity	130	138	135
Registering Property	110	72	47
Getting Credit	98	166	24
Protecting Investors	79	182	166
Paying Taxes	54	123	151
Trading Across Borders	120	168	68
Enforcing Contracts	142	110	30
Resolving Insolvency	149	183	142

Source: World Bank Doing Business Report, 2012

CLV can be regarded as a mixed region. It is a region with high growth rates with hope and potential but at the same time it remains a poor region with relatively high poverty and inequality and also geopolitical uncertainties. The annual per capita income for Cambodia and Laos is about US\$1000 and Vietnam is about US\$1200. The poverty rate in both Cambodia and Laos is about 30 percent, and a slightly lower 15 percent for Vietnam. The income Gini Index in Cambodia, Laos and Vietnam is 41, 35 and 37

respectively.¹ In addition, the issue of good governance (accountability and transparency) at both public and private sectors is the fundamental issue that needs to be addressed.

The governments of CLV have succeeded in implementing economic reforms and introducing major modifications to the structure of economic relations in their respective countries and also to the roles of the state in their economies. The extent to which these governments have improved the livelihoods of their citizens is another issue. Their ability to build upon the economic reforms in place is also uncertain. Political reform is a separate but related issue which has proved to be even more challenging. In the political arena, too often it seems that the more things change, the more they remain the same. All three states have clearly gone beyond the end of the beginning, but each must continue to build on the reforms in place if it is to progress down the road to sustained economic and political development (John, 2006:203).

The bottlenecks of economic transition and reform are infrastructure, human resources—especially skilled labor, and institutional weaknesses. The reform of public institutions lagged behind the needs of a rapid development of entrepreneurship and market-oriented private sector. To maintain and improve long-term competitiveness of CLV especially during the global economic downturn remains a big challenge, which requires fiscal capacity and socio-economic system resilient enough to cope with the global multiple crises. To enhance competitiveness in the long term, the governments should modernize central banks, ministries of finances, ministries of planning and investment; upgrading of professional staffs; strengthening of judiciary and public administration reforms especially in land titling and land use rights; developing sustainable financial sector; and also improving social safety net (Leung *et al.*, 2010:4-5). In addition, both public and private sector investment in physical infrastructure needs to be increased to lower operating costs of investors; and improving governance and reducing corruption is necessary (Leung *et al.*, 2010:38-39).

Cambodia

After gaining power from the genocidal regime, Khmer Rouge, the People's Republic of Kampuchea faced serious structural and social issues. Since the beginning of socioeconomic restructuring, unlike Vietnam and Laos, Cambodia adopted relatively laissez-faire market economy with considerably free move of work forces and free trade following the creation of mixed planned and market economy in which currency, banking and commercial transactions were restored. However, the results of the economic reforms were limited. Agricultural and industrial production was stagnant with diplomatic and economic isolation. The private sector was revitalized but with slow improvement.

In 1988, Cambodia further strengthened the role of the private sector through liberalization process. Foreign investment code and financial autonomy program for the state enterprises were introduced in the mid and late 1980s. The withdrawal of Vietnamese forces in 1989 created a huge burden in defense expenditure which later

¹ World Bank, www.povertydata.worldbank.org/poverty/country

turned into serious inflation and local currency devaluation. The beginning of 1990s, especially after the Paris Peace Accord in 1991 and the general election in 1993 with the establishment of the Royal Government of Cambodia, created new opportunities for Cambodia to further reform its political and economic structure.

In the National Programme presented to the International Committee for the Reconstruction of Cambodia in late 1993, it provided five pillars: promoting economic stabilization and growth by creating policies and processes for long-term economic management with the increase of foreign investment and private entrepreneurship; reforming administrative and judicial institutions through a clarification of the roles and responsibilities of the bureaucrats together with the establishment of effective and fair judicial system; ensuring structural adjustment and sectoral reform through the creation of commercial and investment codes; providing direct support for sustained development by developing infrastructure and social services and human resources development; optimizing the sustainable use of natural resources through conservation management and environmental protection.

With the introduction of liberal democratic system and free market economy, the economic reform of Cambodia was ongoing smoothly with certain progress, in particular privatization and trade liberalization were the driving force of economic development. Official Development Assistance (ODA) and foreign direct investment started flowing quickly into the country, which contributed significantly to the success of economic reform.

Cambodia is regarded as one of the most liberal economic system in the region. It tries to synergize export promotion and import substitution and foreign investment with regional and global economic integration. Given the nature of Cambodian economy and international economic environment, Cambodia needs to pursue economic openness and integration in the region and the world for its survival. Cambodia has become an element in the interdependent international economic system. Such foreign economic policy and philosophy positively impact on Cambodia's economic relations with her neighbors (Chheang, 2008:3).

The first five year Socio-Economic Development Plan (SEDP I, 1996-2000) was formulated to focus on macro-economic growth, social development, and poverty alleviation. "Triangle Strategy" was developed based on three pillars: (1) building peace, restoring stability and maintaining security for the nation and the people; (2) integration of Cambodia into the region and normalization of relationships with the international community; and (3) promoting economic and social development.

The second Socio-Economic Development Plan (SEDP II 2001-2005) was prepared with focus on economic growth and poverty reduction. For the Royal Government, the most formidable development challenge has been and continues to be the development of the private sector that is the engine of economic growth to achieve reduction of poverty and improving the livelihoods and quality of life of the rapidly growing population.

The Rectangular Strategy was put forward, focusing on Growth, Employment, Equity,

and Efficiency in order to promote economic growth, generate employment for Cambodian workers, ensure equity and social justice, and enhance efficiency of the public sector through the implementation of the Governance Action Plan and in-depth reforms that are coordinated and consistent across all levels and sectors.

From 2008-2013, the government carries out the second phase of the Rectangular Strategy, focusing on good governance, environment for the implementation of the strategy, enhancement of the agricultural sector, further rehabilitation and construction of physical infrastructure, private sector development and employment, and capacity building and human resources development. Good governance is the core of the strategy which includes fighting corruption, judicial reform, administrative reform, and the reform of the Royal Cambodian Armed Forces. Peace, political stability, social order, integration into the region and the world, favorable macroeconomic and financial environment, partnership in development are the key elements of creating an environment to implement the strategy.

From 2004 to 2008, the economy grew about 10% per year, driven largely by an expansion in the garment sector, construction, agriculture, and tourism. GDP contracted slightly in 2009 as a result of the global economic slowdown but climbed more than 6% in 2010 and 6.7% in 2011. Cambodia Securities Exchange (CSX) was established as a public enterprise with government shareholding of 55% and the remaining stake held by the Korea Exchange. Currently there is one listed operating company- Phnom Penh Water Supply Authority- and the few more others are applying to be listed in the stock market.

The long-term development of the economy remains a challenge since sources of growth focus on few sectors which are mainly vulnerable to external shocks (global and regional multiple crisis), natural disaster and climate change. The widening gap between rich and poor, urban and rural areas, and weak institutions in redistributing wealth and providing social justice are some of the issues that need to be timely and appropriately addressed. Diversification of sources or bases of growth is a trajectory for future development of Cambodia.

Maintaining macro-economic stability with continued economic reform is necessary for economic development, poverty reduction, and regional economic integration. It is important to consolidate fiscal policy to finance infrastructure development and human capital. Other elements of economic reforms include moving export up the value chain and joining the regional production network; improving competitiveness by addressing the low levels of education and productivity of the work force, poor infrastructure, and poor quality of governance; creating a banking system that can address the risks of greater international financial integration; and improving agricultural sector and agribusiness (Davies, 2010).

Laos

Laos embarked on economic reform through the first Five-Year Plan (1981-5) with the objectives to address at least two fundamental issues which were to normalize the

material and culture life of the people and all nationalities, and also building the enterprises which are strategically important to the economy and national defense with the aim to gradually and firmly build material and technical bases for the national economy. In addition, the plan also prioritizes food production and sustainable natural resources management, strengthening state enterprises, gradual process of economic decentralization and privatization, human resources development, institutional restructuring and improvement, gradual trade liberalization, attracting more foreign assistance and investment, and efficient use of foreign development assistance.

Acknowledging the poor economic performance of the first Five-Year Plan, Lao government introduced a second Five-Year Plan (1986-1990) with more emphasis on economic decentralization. Under the New Economic Mechanism, Laos accelerated decentralization of administrative controls on pricing, production targets and wages. With the implementation of market oriented price setting policy, removal of restrictions on the internal trade of agricultural products, state enterprise reform, enhanced privatization, and expansion of economic relations with the outside world, Lao economic performance was remarkably improving in the 1990s. The private sector started to play a more significant role in expanding agriculture and service sectors. Trade openness especially with Thailand, Vietnam and China significantly contributed to the export.

Becoming the ASEAN member in 1997 and with the commitment to implement the ASEAN Free Trade Area (AFTA) in 2008, the government is required to reduce tariffs to below 5%. Fiscal reform, macro-economic stability, productivity, privatization, and export strategy were further encouraged in order to meet the new challenges and grasp the opportunities from regional trade liberalization.

In the following five-year plan (2005-2010), Lao economy has grown with an average growth rate of 7.9%. The overall macroeconomic situation has remained high with relatively low inflation rate. The sources of growth are driven by natural resources and manufacturing sectors. Agriculture is expected to benefit from the recent increase in regional demand and high food prices. While the pressure from the food and fuel prices increases, the Government recognizes the importance of diversifying the sources of growth and in enhancing prudent public financial management to ensure sufficient funding for priority health and education services.²

Despite this high growth rate, Laos remains a country with an underdeveloped infrastructure, particularly in the rural areas. Subsistence agriculture, dominated by rice cultivation in lowland areas, accounts for about 30% of GDP and 75% of total employment. Economic growth has reduced official poverty rates from 46% in 1992 to 26% in 2010. The economy has benefited from high foreign investments in hydropower, mining, and construction. Laos gained Normal Trade Relations status with the US in 2004, and is taking the necessary steps to join the World Trade Organization (WTO), where its related trade policy can help improve the business environment.³ In 2011,

² Statement by Phouphet Khamphounvong, Governor Statement No. 29, September 23, 2011.

³ Index Mundi, "Laos Economy Profile 2012", http://www.indexmundi.com/laos/economy_profile.html

Laos opened its first stock market, which currently has two listed companies: Laos's largest commercial bank, BCEL (Banque Pour Le Commerce Exterieur Lao) and the electricity company EDL Generation Public Company.

Lao economy is projected to continue to grow over the 7th five-year National Strategic Economic Development Plan (2011-15), with real GDP growth targeted at 8%. To achieve the socio-economic development targets and Millennium Development Goals by 2015, the government continued implementing reform agendas, by focusing on improvement of business environment, enhancement of investment efficiency, strengthening public financial management, particularly centralization of revenue administration and treasury as well as redesigning the inter-government fiscal relationship, accelerating the banking sector reform. On the economic integration into the world, the government has continued to reduce the tariff under AFTA's commitments.⁴

Based on the assessment of the economic performance, growth has been driven largely by investment while the volume of export is very low. Several challenges for economic transformation of Laos are building sound institutions and fostering a good business environment, increase international trade through, and supporting the private sector- especially manufacturing sector and small and medium enterprises to join the growing regional production network (Ishi, 2010:110-132).

Vietnam

In the beginning of the 1980s, Vietnam leaders recognized the shortfall of economic policies and reforms in the country and started to introduce new economic policies to address the increasing challenges stemming from low productivity, food shortage, population growth, and low personal income. General Secretary Le Duan criticized the socialist policies by the Party after the 1975:

The deep root cause of the difficulties in the economy and daily life is the following: Our economy is still primarily one of small production, and moreover suffers the extremely heavy aftermaths of prolonged war and of colonialism... On the other hand, the difficulties have also stemmed from shortcomings and mistakes of the party and state agencies, from national down to grass-roots levels, in economic leadership and management and in the running of our society (John 2006:45).

Economic reforms started to be the key issue for the Party Congress. In the fifth party congress in 1982, the Central Committee member Truong Chinh signaled the need to reevaluate Party policies:

This fifth congress of our party will review the implementation of the line set forth by the fourth congress, correctly assess achievements and shortcomings, recognize the actual prevailing economic and social conditions and analyze the

⁴ Statement by Phouphet Khamphounvong, Governor Statement No. 29, September 23, 2011.

causes of successes and difficulties. It will also set forth the main economic and social orientations, tasks and targets for 1981-85 and for the 1980s (John 2006:49).

The economic reforms initiated by the Party did not produce satisfactory outcomes and failed to meet the set objectives. So more aggressive economic reforms were required. The *Doi Moi* (renovation) policy inaugurated in 1986 was the starting point for serious economic reform with concrete results and achievements of the Communist Party of Vietnam towards industrialization and modernization. There were six policy areas under *Doi Moi*: creation of independent status for public enterprises with economic and financial independence; price liberalization; ownership diversification; opening up for foreign investment; institutional support for agricultural development and incentives; and financial system reform.

The National Assembly approved the investment law in 1987 in order to attract more foreign direct investment with the hope to expand its economic relations and integration with the world economy. Inflation was effectively managed, economic growth was evident, foreign currency reserves increased, trade deficit decreased, and there was an increase in privatization in the 1990s. International donor agencies and international lending agencies especially from Japan and US also played significant role in developing infrastructure and strengthening institutions since the early 1990s.⁵

Based on positive results of *Doi Moi*, the party and government of Vietnam continued reforming and opening up the economy with Vietnamese characteristics. Development strategy up to 2000 was under the framework of consolidating national independence and building socialism in Vietnam in order to make the people prosperous and the country strong, advance towards modernization in a society where the people are the masters, where compassion, cultural values and discipline prevail, where oppression and injustice are banned, and where everyone enjoy a prosperous, free and happy life. The overall objectives of the socio-economic development are:

- To immediately overcome acute difficulties, emerge from crisis and stabilize the socio-economic situation.
- To strive to eradicate famine, reduce poverty, solve the unemployment problem, guarantee basic needs, improve the people's material, cultural and intellectual life, gradually accelerate domestic accumulation and attract external resources, strengthening infrastructure and effect a radical switch in economic structure in the direction of industrialization among others.
- The achievements recorded for economic and social activities in recent years, along with the broadening and intensifying of development co-operation with other countries and international organizations have enabled Vietnam to further proceed in the cause of national industrialization and modernizing; to create more employment, accelerate economic growth, and improve people's material and cultural life (Nguyen Ba Phuc 1996:265).

⁵ In November 1992, Japanese government resumed broad economic ties including the offer of a major loan package. In mid-1993, the US government ended its opposition to loans to Vietnam from international lending agencies.

From 2001 to 2006, Vietnam experienced increasing growth rate with relatively stable macroeconomic stability. But from 2007 to 2011, it faced with lower growth rate and serious macro-instability. Different policy and institutional methods were applied to cope with fluctuated economic performances such as that in 2000, the government issued the Law of Enterprise, in 2007 with growth promotion policy, in 2008 with inflation control policy, in 2009 with prevention of downturn policy, in 2010 with recovery policy, and in 2011 with macro-stabilization policy focusing on fiscal and monetary policies. Although Vietnam has reduced its poverty rate from 18.1% in 2004 to 10.7% in 2010, the income gap between the 20% poorest and the 20% richest increased from 8.4 times in 2006 to 9.2 times in 2010 (Vo Tri Thanh, 2012).

Other challenges for Vietnam in the short term would be to transform the role of the government, and for the medium term, it should focus on the private sector that is innovative and capable of developing international brand name products and more responsive to global and regional changing environment (Bingham and Leung, 2010:91-109). The financial market, especially the banking sector, is relatively developed in Vietnam comparing with Cambodia and Laos. Founded in 2000, the Ho Chi Minh Stock Exchange (HOSE) has more than 250 listed companies. It is one of the highest growing stock exchange markets in the region. But the banking crisis stemming from mismanagement and corruption of the Asia Commercial Bank (ACB) in August 2012 has shaken financial market in Vietnam to certain extent.

Government of Vietnam will continue to focus on implementation of the “5 groups of measures”, which include: (i) continuing to implement announced solutions to stimulate domestic demand and consumption; (ii) gradually restructuring the economy; (iii) furthering the exploitation and expansion of markets for exports; (iv) actively preventing the recurrence of inflation; and (v) continuing to make good progress in poverty reduction.⁶

In the Political Platform on building up the country in the transitional period towards socialism, it proposes to examine and understand a series of relationships such as the relationship between innovation, stability and development; between economic reform and political reform; between market economy and socialist orientations; between development of production forces and construction, and incremental improvement of the socialist production relations; between economic growth and cultural development, implementation of progress and social justice; between socialism construction and socialist national defense; between independence, sovereignty and international integration; between the party’s leadership, state management, and people’s ownership”.⁷

⁶ Statement by the Hon. NGUYEN VAN GIAU, Governor of the Bank and the Fund for VIETNAM, at the Joint Annual Discussion, October 6-7, 2009

⁷ Nguyen Viet Thao, “Rethinking on the development in the context of the current global crisis”, presentation at the international workshop on “The Global Crisis and Strategies of Left and Progressive Social Movements in South East Asia”, Hanoi, 21-22 August 2012.

2. Cooperation in CLV

Special relationship established during the communist movements of the three countries in the war against colonialism is the foundation of the present triangle relations and cooperation among the three countries. During his state visit to Hanoi in February 1976, General Secretary Kaysone stated “The special relationship...is the great, constantly consolidated and enhanced comradeship between two Parties which both issue from the Indochinese Community Party” (John 2006:39). Such culture and tradition of trilateral relationship and cooperation remain relevant today.

During the visit of Deputy Prime Minister Nguyen Xuan Phuc to Cambodia in August 2012, he reiterated the time-honored relationship between the two countries. In response, the Cambodian leaders emphasized the “fine traditional friendship and comprehensive cooperation between Vietnam and Cambodia...which has developed across a broad range of interests based on a philosophy of good neighborliness, traditional friendship, comprehensive cooperation and long-term stability”. In addition, Cambodian Prime Minister Hun Sen said that the country wanted to see further cooperation with Vietnam in trade, investment, tourism and culture for mutual benefits of the two neighbors' peoples.⁸

At the Vietnam-Cambodia legislative friendship conference concluded in Ho Chi Minh City on 23 August 2012, the presidents of both the national assemblies of Cambodia and Vietnam committed to build bilateral relations based on the motto, “good neighbors, traditional friendship, comprehensive and long-term sustainable cooperation” and strengthen an ASEAN community of solidarity, strength, mutual respect and support, for the common goal of peace, security, cooperation and development.⁹

Vietnam is emerging to be one of the key investors and trade partners of Cambodia and Laos. Trade relations between Vietnam and Cambodia showed growth with a turnover of US\$2.8 billion in 2011 and is expected to reach US\$ 5 billion in the next five years by further facilitating trade across border.¹⁰ Bilateral trade between Laos and Vietnam is expected to increase from US\$1 billion in 2012 to US\$2 billion by 2015.¹¹ By June

⁸ Xin Hua News, Cambodian PM wants closer ties with Vietnam in trade, investment, tourism, 17 August 2012, <http://www.asean-cn.org/Item/5764.aspx>

⁹ Vietnam News Agency, “Vietnamese, Cambodian legislators discuss ties” http://www.vietnamembassy-belarus.org/vnemb.vn/tin_hddn/ns120823223700

¹⁰ Saigon Giai Phong, Cambodia, Vietnam agree to enhance border cooperation , 10 March, 2012. <http://www.saigon-gpdaily.com.vn/National/2012/3/100234/>

¹¹ Vietnam News, “Deputy PM meets with Lao Leaders”, 15 August 2012 <http://vietnamnews.vnagency.com.vn/politics-laws/228796/deputy-pm-meets-with-lao-leaders.html>

2012, Vietnam had invested US\$5.2 billion in Laos¹². Most of these investments are in mining, electricity, agriculture and services. The value of Vietnamese investment in Laos makes the country one of the top three Foreign Direct Investors. The other two are China and Thailand.¹³ Laos and Vietnam committed to implement trade development scheme for 2008-2015, finishing the Laos-Vietnam border trade development master plan, and coordinating with Cambodia to sign the tripartite road transport agreement.¹⁴

During the visit of the Deputy Prime Minister Nguyen Xuan Phuc to Laos in August 2012, he noted the expanding cooperation in defence-security, education and human resource training, as well as the smooth coordination between the two countries at multi-lateral forums. In addition, President Truong Tan Sang, in early September 2012, reaffirmed the great significance of the Vietnam-Laos special relations, saying that with the aim of mutual support and assistance for prosperous development in each country, the relationship contributed to creating an environment of peace, cooperation and friendship among Southeast Asian nations – one of the factors to build the ASEAN Community by 2015.

During the 55th anniversary of Cambodia-Laos diplomatic relationship, the diplomatic ties between the two countries were reaffirmed, and relationship and cooperation for peace, security, sustainable development and universal harmony were further enhanced. They recalled the long-time historic relationship between the two countries up to the resistance movement of the peoples in Indochinese countries including Laos, Cambodia and Vietnam for liberation and independence.¹⁵

Bilateral defence co-operation between Vietnam, Laos and Cambodia has been enhanced and developed with positive results in human resource development, exchange of delegations and sharing of experience in political and ideological work, including resolving border security issues, speeding up border demarcation.¹⁶ Recently, the governments of both countries have tried to finish border demarcation as soon as possible. Between Cambodia and Laos, 80% of border demarcation has been completed.¹⁷ Between Laos and Vietnam, the two sides have agreed to complete installation of the border markers by the end of 2012.¹⁸ However, border issues remain

¹² Vietnam News Agency, "Vietnam-Lao Cooperation Committee Meets", 13 August 2012,

<http://www.tuoitrenews.vn/cmlink/tuoitrenews/politics/vn-laos-cooperation-committee-meets-1.83035>

¹³ Vientiane Times, [Laos, Vietnam to enhance special economic relations](#), 10 July 2012,

¹⁴ Laos Voices, Laos-Vietnam economic ties strengthened, 8 February 2012, <http://laovoices.com/laos-vietnam-economic-ties-strengthen/>

¹⁵ Laos Voices, 55th Anniversary of Cambodia-Laos Diplomatic Relationship Celebrated, 29 June 2011, <http://laovoices.com/55th-anniversary-of-cambodia-laos-diplomatic-relationship-celebrated/>

¹⁶ Nhan Dan, Vietnam, Laos, Cambodia promote defence co-operation, 15 July 2012, <http://www.nhandan.com.vn/cmlink/nhandan-online/homepage/politics/external-relations/vietnam-laos-cambodia-promote-defence-co-operation-1.357880>

¹⁷ Laos Voices, 55th Anniversary of Cambodia-Laos Diplomatic Relationship Celebrated, 29 June 2011, <http://laovoices.com/55th-anniversary-of-cambodia-laos-diplomatic-relationship-celebrated/>

the key challenge of cooperation among the three countries. Cambodia-Vietnam border conflict has become the key domestic political issue in Cambodia.

The triangle cooperation is also shaped by Chinese factor. Cambodia is a case in point to explain how the bilateral relation between Vietnam and China matters for Cambodia (Mitchell, 2011). Laos is also facing with the tug of war between China and Vietnam (Storey, 2004). It is safe to say that cooperation among CLV remains vulnerable to the changing political, strategic and economic landscape in the region especially the roles and influences of the major powers. The increasing trend of strategic competition especially between China and the United States in the region put CLV cooperation and unity at risk. Cambodia and Laos seem to be closer to China while Vietnam is getting closer to the US.

3. CLV Growth Triangle

Growth Triangles involve economic co-operation based on encouraging specific and limited linkages of complementary economic activities across borders. It is a pragmatic response to the practical problems of formal economic integration among nations...Growth Triangles, as subregional economic co-operation, need not involve entire countries, but simply adjacent areas within countries that have complementary capabilities and resources (Abonyi 1996:5).

Growth Triangles (GTs) has become one of the key concepts of development economics and regionalism especially in Southeast Asia. The idea is to connect different regions or provinces along the border areas of three countries within a certain geographic setting. GTs in Asia are mainly driven by economic interest. Regional countries are expected to cooperate together in order to develop the economy to reduce poverty. Physical characteristics and different objectives of different GTs are common. In general, the key successes of GTs are economic complementarity, geographical proximity, political commitment and policy coordination, and infrastructure development (Thant and Tang 1996:1-14). To sustain the development of a growth triangle depends on the ability to maintain amicable relations and to reduce risk and uncertainty through transparent information sharing especially among the governments, private sector, and local people. Institutional mechanisms to operate and facilitate the operations of GT and mediate the differences in order to create win-win cooperation are necessary (Thant 1996: 260-1)

Besides economic consideration, GTs also has, to certain extent, political and security implications. In addition to the general perception and understanding of the positive contribution of GTs in economic development and peace, Acharya also alerted "The major security-diminishing implications of growth triangles are linked to concerns about the uneven spread of their benefits. Unless carefully managed, these concerns

¹⁸Vientiane Times, Laos, Vietnam push for greater progress in border demarcation, http://www.vientianetimes.org.la/FreeContent/FreeContent_Laos_vietnam.htm

could contribute to greater domestic and inter-state tensions and undermine their potential to contribute to regime legitimacy of regional order” (Acharya 1996:36).

The Cambodia-Laos-Vietnam Growth Triangle was established at the first Summit in 1999 in Vientiane, Laos with the objectives to strengthen cooperation and solidarity among the three countries in order to develop socio-economy and reduce poverty, contributing to stability and peace of the three countries.

The second CLV-GT Summit, held in 2002 in Ho Chi Minh City of Vietnam, provided guidelines for cooperation in the areas of transport, trade, energy, tourism, human resources development and health.

At the third Summit in Siem Reap, Cambodia, in 2004, the leaders reaffirmed the role of the triangle in coordinating and developing physical infrastructure and initiated different development projects.

At the fourth Summit in Da Lat, Vietnam, in 2006, the coordinating committee was established. The leaders committed to create a favorable environment for investment and attract more development resources especially from Japan.

The sixth Summit was hosted by Cambodia in Phnom Penh in 2010. The leaders appreciated the achievements of socio-economic development in the 13 provinces located in the Growth Triangle. The leaders issued the action plans for the development of the Triangle especially in five areas namely transport, trade and investment, energy, agriculture, tourism, and environment. To realize this, there were some concrete implementation with the strong support from development partners especially Japan. Japan has committed USD\$20 million in development assistance to this GT.

Currently there are 13 provinces included in the GT: Cambodia - Strung Treng, Ratanakiri, Mondul Kiri and Kratie; Laos - Sekong, Attapeu, Saravan and Champasak; and Vietnam - Kon Tum, Gia Lai, Dak Lak, Dak Nong and Binh Phuoc. These provinces have a total area of 143,900 square kilometers and population of about 6.8 million. However, geographic challenges and infrastructure connectivity between these provinces are still limited.

From 2005 to 2010, this region had an economic growth of about 10% annually. There is a positive trend of economic sectoral changes from agriculture to industry and service. In 2010, agriculture accounted for 52.5%, industry and construction accounted for 21%, and service 26.5%. However, the per capita income is relatively lower than other regions as the beginning stage of development cooperation was very low. In 2010, the per capita income was only USD\$761, about 75% of the total per capita income of the total population of the three countries.

Japan has so far played quite a significant role in developing the triangle through infrastructure development and connectivity projects. Japan committed US\$ 1.5 billion to implement the initiative for the Mekong Region Development to improve the

infrastructure, such as transport, electricity and Information Communication Technology in the CLV, as priority issues of the regional development.¹⁹

4. CLV and ASEAN Regional Integration

Development gap is the main hindrance in realizing an ASEAN Community. To narrow the development gap is one of the key factors in realizing regional integration and community building within ASEAN. The first work plan on Initiatives for ASEAN Integration (IAI) was implemented from 2002-2008 and the second work plan (2009-2015) is currently being implemented.

Cambodia, Laos, Myanmar, and Vietnam (CLMV) is the poorest sub-group, which requires support from the other ASEAN Member States, dialogue partners, and development partners. So far, within the ASEAN cooperation framework, there is limited resources and even political willingness to assist CLMV. Such limitation forces CLMV to work closer with the dialogue and development partners such as China, Japan, United States, and the Asian Development Bank (ADB).

In the joint statement of the 5th CLMV Summit in 2010, the leaders reasserted their commitment to promote trade and investment by effectively implementing all the existing agreements between and among the CLMV countries; further strengthen close coordination in using the economic corridors across the CLMV countries especially the East-West Economic Corridor, the Southern Economic Corridor; improve information sharing, joint research, and technology exchanges in the fields of agriculture, forestry, livestock and fisheries; further implement coordinated tourism policies and activities particularly the air link connecting CLMV major cities as well as cultural and natural heritage sites and push forward cultural connectivity among the four countries; promote educational exchanges, scholarship programs, and joint training programs, and deepen closer cooperation and integration within Greater Mekong Sub-region and ASEAN frameworks.

In the 4th ASEAN Informal Summit in Singapore, which was held from 22- 25 November 2000, according to the Summit's Press Statement, ASEAN laid foundation of IAI as follows:

1. The ASEAN leaders agreed to launch an *Initiative for ASEAN Integration (IAI)*. The IAI is to narrow the divide within ASEAN and enhance ASEAN's competitiveness as a region. Essentially, it provides a framework for regional cooperation through which the more developed ASEAN members could help those member countries that most need it. This initiative is guided by Dr Mahathir's principle of "prosper thy neighbour" and, by so doing, to "prosper ASEAN".

¹⁹Ministry of Foreign Affairs of Japan, <http://www.mofa.go.jp/region/asia-paci/clv/joint0411.html>

2. The IAI will focus on education, skills development and worker training. These will be key factors of competitiveness in the New Economy. To catalyse the IAI, ASEAN members will contribute what they can.
3. To kick off the IAI, Singapore offered, under a five-year technical assistance program, several training institutes in Cambodia, Laos, Myanmar and Vietnam, provide IT “Train-the-Trainers” courses and training attachments to its educational institutions. Singapore will also increase the number of existing Singapore Scholarships given to ASEAN nationals.

The IAI framework covers a variety of human resource development programs which contribute to the objective of integrating the four newer member countries (Cambodia, Laos, Myanmar and Vietnam) into ASEAN. A training centre was set up in each of the four countries, and since 2002 the four centres have been conducting training courses for government officials in a wide variety of fields, including English Language, Information Technology, Public Administration and Trade and Tourism. More than 20,000 officials have been trained so far.

Singapore’s initial commitment to the IAI was S\$59.5 million for a five-year period. At the 10th ASEAN Summit in 2004, Prime Minister Lee Hsien Loong announced that Singapore would extend its commitment for a further three years, from 2006 to 2008, with a contribution of S\$28.9 million. At the 13th ASEAN Summit in 2007, Prime Minister Lee reaffirmed Singapore’s continued commitment to the IAI by pledging another S\$30 million to cover technical assistance projects from 2009 to 2011.²⁰

In ASEAN Summit in Bali, Indonesia in November 2011, Singapore announced an extension of its contributions to the Initiative for ASEAN Integration (IAI) for another four years from 2012 to 2015, with a total fund of S\$50 million. Revealing this during the plenary session of the ASEAN Summit in Bali, Prime Minister Lee Hsien Long said this was the country’s fourth pledge to the IAI. The IAI aims to help member states such as Cambodia, Laos, Myanmar and Vietnam narrow the development gap to achieve the vision of an ASEAN Community.

In 19th ASEAN Summit, the leaders reaffirmed their commitment to the ongoing efforts of supporting equitable development including the Master Plan on ASEAN Connectivity (MPAC), Initiative for ASEAN Integration (IAI), ASEAN Policy Blueprint for SME Development (APBSD) and ASEAN Strategic Action Plan for SME Development, ASEAN Integrated Food Security (AIFS) Framework, ASEAN Plus Three Emergency Rice Reserve (APTERR) and Sub-Regional Cooperation arrangements within ASEAN.²¹

²⁰ Singapore Cooperation Programme (SCP) at <http://app.scp.gov.sg/idxiai.asp> accessed on 31 January 2011.

²¹ Chairman’s Statement of 19th ASEAN Summit, Bali, Indonesia, 17 November 2011 at www.aseansec.org/documents/19th%20summit/CS.pdf accessed on 29 March 2012.

The efforts to narrow the development gap will be driven mainly by the IAI Work Plan. The first IAI Work Plan for the period 2002-2008 accomplished implementation of a total of 134 projects/programs attracting a total investment of about US\$191 million from ASEAN-6, and about US\$20 million by dialogue partners, development agencies and other partners. This does not include the other IAI related substantive support given to the CLMV, nor other projects implemented in the CLMV sub-region.

The IAI Strategic Framework provides the policy direction for the formulation, implementation, monitoring, and reporting of the IAI Work Plan for the period from 2009 to 2015. The IAI Work Plan has been formulated based on the key program areas in each of the three Blueprints, the 1st IAI Work Plan 2002-2008, and the project ideas contained in the Mid-Term Review of the 1st IAI Work Plan 2002-2008.²²

While it is acknowledged that all ASEAN Member States (AMS) will benefit from the Blueprint actions and that CLMV countries may be accorded additional attention in the implementation of these actions, the programs to be included in the IAI Work Plan are those that are critical and necessary to hasten the integration process and to move forward in a unified manner in the implementation of the Blueprints.

Criteria for projects in the IAI Work Plan include identification of the precise needs of CLMV in terms of external assistance, the importance of a project's role in national development plans, its effectiveness in building CLMV capacity for participation in ASEAN programs, long term continuity and sustainability, and absorptive capacity of CLMV countries. This will ensure that IAI projects have coherence, focus, ensure adequate coverage, reflect substantive gaps in priority sectors and activities essential for integration, and more importantly are responsive to the needs of CLMV.

While capacity building and human resource development is key to IAI efforts, there is a need to encourage the development of infrastructure as a means to promote ASEAN integration.

The establishment of the ASEAN Infrastructure Fund (AIF) late last year with the budget of US\$ 500 million is a partial part of the overall regional efforts in assisting the less developed members to develop infrastructure especially along the border areas.

With relatively high growth rates and predictable political stability and certainty in CLV projected for the coming years, these three countries are more attractive to investors and traders especially from the East Asian region. Improving investment climate and expanding trade relations can further strengthen and sustain economic development and help in poverty reduction in CLV. To realize this, CLV needs to improve both hard (especially road connectivity) and soft infrastructure (especially trade and investment facilitating measures and institutional reform), which requires the support from ASEAN

²² Initiative for ASEAN Integration (IAI) Strategic Framework and IAI Work Plan 2 (2009-2015) at http://www.thaiembassy.sg/press_media/press-releases/initiative-for-asean-integration-iai-strategic-framework-and-iai-work-pla accessed on 25 March 2012.

and development partners and national commitment of continued economic reforms and institutional improvement.

Conclusion

Geographical linkages, traditional friendship, and sub-regional economic relations connect Cambodia, Laos, and Vietnam in many ways. CLV is becoming a new front line of regional integration in Southeast Asia. Continued economic policy reforms together with regional integration are taking the center stage of the governments in the sub-region. While the region is emerging as an additional economic center to the region, it continues to face the issue of development gap, inequality and high poverty rate.

Regional cooperation on development has contributed to narrowing the development in the region through mainly investment infrastructure. The new dynamic has been undergoing in CLV with the increasing flows of investment and expansion of international trade from the region and beyond. CLV Growth Triangle is emerging to be a factor in linking border areas to promote trade, tourism, agriculture, and other sectoral cooperation schemes and narrowing the development gap within the countries since the border regions are less developed.

Measures to strengthen CLV cooperation include political reform, economic reform, confidence building measures, together attracting foreign direct investment and official development assistance in order to integrate CLV into a single entity. Such development and cooperation can reduce the development in the region and move towards the realization of ASEAN community by 2015.

The challenges, though, for CLV are how to effectively and timely transform from economic development to poverty reduction and social protection. Investing in human resources and technology are necessary for CLV to move from cheap labor intensive industries and primary products exported economies to knowledge based and services economy. CLV need to increase labor productivity and better mechanism of wealth distribution. Inclusive growth and sustainable development need to be conceptually integrated into development and integration discourses and implemented at local, national and regional levels.

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